

Message Text

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SUBJECT: AEROSPACE INDUSTRY: GOC TO ACQUIRE DE HAVILLAND AND
CANADAIR

1. MINISTER OF INDUSTRY, TRADE AND COMMERCE ALASTAIR
GILLESPIE ANNOUNCED MAY 27 GOC TAKING TWO MAJOR
STEPS TOWARD REORGANIZATION UNDER CANADIAN CONTROL
OF AEROSPACE INDUSTRY. SPECIFICALLY, GOC WILL
(A) EXERCISE AN OPTION IT OBTAINED IN 1972 TO
PURCHASE DE HAVILLAND AIRCRAFT OF CANADA, LTD., OF
TORONTO, FROM ITS BRITISH OWNERS, HAWKER-SIDDELEY LTD.;
AND (B) SEEK AN OPTION TO PURCHASE CANADAIR LTD. OF
CARTIERVILLE (NEAR MONTREAL), QUEBEC FROM ITS AMERICAN
OWNERS, GENERAL DYNAMICS CORP. OF ST. LOUIS.
ESTIMATED COSTS ARE \$38 MILLION AND \$32 MILLION,
RESPECTIVELY. GOC ANNOUNCED INTENT IS TO MERGE
THE TWO ENTITIES, OPERATE THEM ONLY ON AN INTERIM BASIS,
AND OFFER THE PACKAGE TO CANADIAN FINANCIAL INTERESTS.

2. GILLESPIE'S PRESS STATEMENT STATES THAT "IN THE PAST GROWTH
AND DEVELOPMENT OF THESE AIRFRAME MANUFACTURERS HAS BEEN
IMPAIRED BY FACT THAT THEY ARE FOREIGN OWNED AND CONTROLLED.
THESE COMPANIES HAVE HAD LITTLE INDEPENDENT AUTHORITY TO
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MAKE DECISIONS OR TO ENTER INTER-COMPANY ARRANGEMENTS

FOR MEANINGFUL RATIONALIZATION. IN SOME ASPECTS, THEY ARE EVEN IN COMPETITION WITH OPERATIONS OF THEIR PARENT COMPANIES.

3. "DISCUSSIONS WITH DE HAVILLAND AND CANADAIR AND THEIR PARENT COMPANIES HAVE CLEARLY INDICATED THAT THESE FIRMS ARE NOT MOTIVATED TO RATIONALIZE THEIR CANADIAN OPERATIONS. WITHOUT POSITIVE INTERVENTION BY THE FEDERAL GOVERNMENT THE PAST PATTERN OF PROBLEMS AND CRISES IN THE INDUSTRY WOULD ALMOST CERTAINLY CONTINUE AND INTENSIFY."

4. COMMENT: GOC FINANCIAL SUPPORT HAS BEEN A KEY ELEMENT IN KEEPING THESE FIRMS IN BUSINESS OVER PAST SEVERAL YEARS. ACCORDING TO PRESS STATEMENT, DE HAVILLAND HAS RECEIVED SOME \$73.2 MILLION AND CANADAIR \$78.5 MILLION. THEY EMPLOY, RESPECTIVELY, 2700 AND 2600 WORKERS AT PRESENT.

5. ACQUISITION BY GOC OF DE HAVILLAND MAY BE AN INDICATION IT IS GOING TO PUSH DH-7 STOL AIRCRAFT PROGRAM TO PRODUCTION STAGE. CURRENT PROGRAM INVOLVES BUILDING ONLY TWO PROTOTYPE MODELS FOR FURTHER TESTING. MARKETING EFFORTS WHICH WOULD JUSTIFY GOING INTO PRODUCTION HAVE NOT BEEN SUCCESSFUL TO DATE AS FIRM ORDERS IN HAND ONLY FOR FOUR AIRCRAFT, TWO FROM NORWEGIAN CARRIER WIDEROE FLYVESELSKAP AND TWO FROM ROCKY MOUNTAIN AIRWAYS OF DENVER, A US COMMUTER AIRLINE. PRESS REPORTS HAVE SUGGESTED DE HAVILLAND WILL NEED ABOUT \$100 MILLION MORE FROM GOC TO GO INTO PRODUCTION PHASE AND HAVE SUGGESTED THIS UNLIKELY BE MADE AVAILABLE UNLESS GOC FIRST DECIDES TAKE UP OPTION IT NEGOTIATED TWO YEARS AGO AND WHICH EXPIRES JUNE 28.

6. IT IS NOT CLEAR HOW THIS ACTION BY GOC RELATES TO EARLIER PROPOSAL BY COMSTOCK INTERNATIONAL TO MERGE THESE COMPANIES IN AN ASSOCIATION WITH AIR CANADA (SEE OTTAWA A596, NOV 14, 1973) WHICH SO FAR AS EMBASSY IS AWARE HAS NOT BEEN REJECTED BY GOC. AIR CANADA DID NOT TAKE A PUBLIC POSITION ON THAT PROPOSAL WHICH, HOWEVER, UNCLASSIFIED

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WAS STRONGLY OPPOSED BY MOST OTHER CANADIAN AIRLINES AND OPERATORS WHO SAW IT AS A DEVICE TO RESTRICT THEM (THROUGH "BUY CANADIAN" DEVICES) IN THEIR FUTURE EQUIPMENT CHOICES. IT MAY BE ANTICIPATED THAT SIMILAR SENTIMENTS WILL RESULT FROM THIS GOC ACTION. RATIONALIZATION OF AEROSPACE INDUSTRY IS A MAJOR OBJECTIVE OF GOC (SEE SPEECHES OF TRANSPORT MINISTER MARCHAND AND SUPPLY AND SERVICES MINISTER GOYER AT QUEBEC MEETING OF AIR

INDUSTRIES ASSOCIATION OF CANADA (AIAC) LAST OCTOBER, OUR A-580, NOVEMBER 7, 1973) BUT NO MASTER BLUEPRINT FOR IT HAS BEEN PUBLISHED. INDEED, A SENIOR AIAC OFFICIAL SOME MONTHS AGO TOLD TCO THAT IN HIS VIEW COMBINING OF THESE TWO FIRMS WOULD MAKE SENSE ONLY IF ONE OR THE OTHER WERE TO BE CLOSED DOWN IN THE PROCESS. POLITICALLY HE CONSIDERED THIS IMPOSSIBLE SINCE ONE WAS LOCATED IN TORONTO AND OTHER IN MONTREAL AND DISPLACED WORKERS FROM ONE COULD NOT EASILY BE ABSORBED BY THE OTHER.

7. NO REACTION TO GOC ANNOUNCEMENT HAS YET BEEN ISSUED BY EITHER BRITISH OR AMERICAN FIRM INVOLVED.

8. WE ARE FORWARDING TO EUR/CAN AND EB/OA/AVP COPIES OF NEW RELEASE PUT OUT BY DEPARTMENT OF INDUSTRY, TRADE AND COMMERCE.
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